PERAC AUDIT REPORT

Cambridge Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

April 18, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Cambridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan, John Shea, and William Walsh who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation Redefined

The City of Cambridge Water Department provides premium compensation to employees who work holidays that coincide with their regular shift assignment. For holidays that occur during a regular weekday, the premium is equivalent to time and a half. For holidays that occur during a weekend day, the premium is equivalent to double time and a half. The Cambridge Retirement Board has been aware of these premium compensation arrangements for an extended period. They voted to allow both of these premiums to qualify as regular compensation on the advice of Board counsel.

The Code of Massachusetts Regulations CMR 15.03 (3)(f) states "wages" shall not include, without limitation...any amounts paid as premiums for working holidays, except in the case of police officers, firefighters and employees of a municipal department who are employed as fire alarm signal operators or signal maintenance repairmen…"

Legal counsel opined that the regulation was not limited to Group 4 employees and could be extended to other employees with an essential requirement to work holidays and the Board agreed with that assessment. The City payroll reflects the specific earnings codes applied to the holiday compensation for employees during these defined pay periods.

Recommendation: The Board action in these cases must be rescinded. These payments clearly violate the definition of regular compensation effective subsequent to July 1, 2009 as stated in CMR 15.03 (3)(f). The Water Department should implement separate and distinct earnings codes for the premium portion of the compensation. These payments cannot be included as qualified for retirement contributions. Any Water Department employee who initiates a retirement application must be advised that the earnings paid and included in these categories will not be included in the calculation of their benefit. The Retirement Board should instruct the City to stop withholding retirement contributions from the Holiday Pay for the Water Department. Contributions collected in these categories should be refunded.

Board Response:

The Cambridge Retirement Board recognizes that the definition of regular compensation has changed and that the determinations of holiday pay payments no longer constitutes regular compensation. In light of the change, the Cambridge Retirement Board will notify the Personnel Director for the City of Cambridge as well as the Managing Director of the Water Department of the change. The Water Department will no longer take retirement deductions from this type of pay. The Board voted to refund the deductions to the eight active members affected by the change and the one retired member.

2. Additional 2% Contributions Deducted From Payroll

An inspection of the payroll records of the Cambridge Housing Authority disclosed problems with the calculation of the additional 2% contribution for compensation in excess of $30,000 applied on an annualized basis. The deduction formula did not accurately reflect the exclusion applied to wages under the $30,000 control point. The additional 2% contribution formula must apply the exclusion to the same qualified regular compensation types indicated in the regular compensation deduction formula. An additional exclusion was applied to Code "T" pay (ST/OT Straight OT). Since this type of pay was already excluded from the formula for calculating the additional 2% contribution, a duplicate exclusion further reduced the 2% contribution calculation. The Retirement Board has not been receiving legitimate 2% contributions from employees of the Cambridge Housing Authority.

Recommendation: PERAC Memo #43/1999 provides the definitive guidance on withholding for the additional 2% contribution for compensation in excess of $30,000 applied on an annualized basis. The Retirement Board must insist that the Cambridge Housing Authority instruct the payroll vendor to correct the calculation of the 2% withholding retirement contributions. The amount of the obligation owed to the retirement system must be determined as soon as possible. The Board must dictate a policy and initiate a procedure for the recovery of these funds.

Board Response:

The Cambridge Retirement System notified the Cambridge Housing Authority of the error. The Housing Authority contacted the vendor and the vendor corrected the problem in November 2013. During the months of November and December, the Authority performed a full review of all employees' 2% contribution calculations and submitted the corrections and contributions to the Cambridge Retirement System in the amount of $8,378.00. Additional procedures have also been implemented by the Housing Authority including a monthly review of the 2% contribution to ensure completeness and accuracy of the calculation and to ensure such withholdings are submitted to the Cambridge Retirement System. The underpayments have been made and all member accounts have the correct 2% contribution.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2012	2011	2010
Net Assets Available For Benefits:			
Cash	$11,259,398	$9,920,833	$11,873,110
Short Term Investments	0	192,984	0
Fixed Income Securities (at fair value)	83,607,586	73,892,304	78,020,806
Equities	301,154,356	257,234,749	259,540,908
Pooled Domestic Equity Funds	74,510,956	59,104,085	73,834,460
Pooled International Equity Funds	138,641,082	114,059,589	132,721,953
Pooled Domestic Fixed Income Funds	55,090,563	51,675,689	49,187,335
Pooled International Fixed Income Funds	41,012,698	36,210,663	34,598,270
Pooled Alternative Investment Funds	21,494,941	20,666,495	19,962,572
Pooled Real Estate Funds	86,360,305	86,117,158	54,838,332
PRIT Core Fund	54,522,590	50,317,127	51,749,239
Interest Due and Accrued	1,054,988	1,112,056	1,089,244
Accounts Receivable	11,734,747	10,074,272	8,706,400
Accounts Payable	(4,359,414)	(2,348,968)	(1,360,255)
Total	$876,084,795	$768,229,036	$774,762,374
Fund Balances:			
Annuity Savings Fund	$234,707,132	$224,419,942	$212,738,880
Annuity Reserve Fund	54,455,213	53,906,749	54,594,850
Pension Fund	605,961	625,119	5,320,101
Military Service Fund	5,900	5,894	5,882
Expense Fund	0	0	0
Pension Reserve Fund	586,310,589	489,271,331	502,102,660
Total	$876,084,795	$768,229,036	$774,762,374

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	$206,554,551	$48,428,129	$17,217,834	$5,865	$0	$409,123,145	$681,329,524
Receipts	22,011,193	1,502,309	30,463,789	18	4,892,133	92,966,194	151,835,634
Interfund Transfers	(12,320,311)	12,306,990	0	0	0	13,321	0
Disbursements	(3,506,553)	(7,642,577)	(42,361,521)	0	(4,892,133)	0	(58,402,784)
Ending Balance (2010)	212,738,880	54,594,850	5,320,101	5,882	0	502,102,660	774,762,374
Receipts	21,784,001	1,611,054	34,287,439	12	4,896,870	(6,809,182)	55,770,194
Interfund Transfers	(6,142,411)	6,164,557	6,000,000	0	0	(6,022,146)	0
Disbursements	(3,960,528)	(8,463,713)	(44,982,421)	0	(4,896,870)	0	(62,303,532)
Ending Balance (2011)	224,419,942	53,906,749	625,119	5,894	0	489,271,331	768,229,036
Receipts	21,200,858	1,610,004	34,673,774	6	5,604,844	108,815,776	171,905,263
Interfund Transfers	(7,823,264)	7,902,960	11,696,823	0	0	(11,776,519)	0
Disbursements	(3,090,404)	(8,964,500)	(46,389,755)	0	(5,604,844)	0	(64,049,504)
Ending Balance (2012)	$234,707,132	$54,455,213	$605,961	$5,900	$0	$586,310,589	$876,084,795

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$19,907,402	$19,870,741	$20,069,780
Transfers from Other Systems	409,697	701,426	798,349
Member Make Up Payments and Re-deposits	279,888	218,921	292,294
Member Payments from Rollovers	208,432	383,095	197,980
Investment Income Credited to Member Accounts	395,440	609,818	652,790
Sub Total	21,200,858	21,784,001	22,011,193
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	1,610,004	1,611,054	1,502,309
Sub Total	1,610,004	1,611,054	1,502,309
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	1,793,857	993,382	879,476
Received from Commonwealth for COLA and Survivor Benefits	890,020	1,048,470	1,017,470
Pension Fund Appropriation	31,962,897	32,212,987	28,553,542
Settlement of Workers' Compensation Claims	27,000	32,600	13,300
Sub Total	34,673,774	34,287,439	30,463,789
Military Service Fund:			
Investment Income Credited to the Military Service Fund	6	12	18
Sub Total	6	12	18
Expense Fund:			
Investment Income Credited to the Expense Fund	5,604,844	4,896,870	4,892,133
Sub Total	5,604,844	4,896,870	4,892,133
Pension Reserve Fund:			
Interest Not Refunded	59,869	64,725	41,501
Miscellaneous Income	24,207	16,655	66,802
Excess Investment Income (Loss)	108,731,700	(6,890,561)	92,857,891
Sub Total	108,815,776	(6,809,182)	92,966,194
Total Receipts, Net	$171,905,263	$55,770,194	$151,835,634

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$2,430,279	$3,108,451	$2,649,461
Transfers to Other Systems	660,125	852,077	857,092
Sub Total	3,090,404	3,960,528	3,506,553
Annuity Reserve Fund:			
Annuities Paid	8,700,052	8,263,575	7,535,827
Option B Refunds	264,448	200,138	106,750
Sub Total	8,964,500	8,463,713	7,642,577
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	30,910,284	29,796,954	27,543,267
Survivorship Payments	2,809,459	2,734,463	2,600,337
Ordinary Disability Payments	684,411	686,073	652,164
Accidental Disability Payments	7,896,108	7,858,900	7,725,226
Accidental Death Payments	2,664,907	2,518,204	2,491,775
Section 101 Benefits	377,254	350,135	306,595
3 (8) (c) Reimbursements to Other Systems	1,047,333	1,037,692	1,042,157
Sub Total	46,389,755	44,982,421	42,361,521
Expense Fund:			
Board Member Stipend	16,250	16,500	16,500
Salaries	542,461	523,475	521,004
Legal Expenses	58,138	48,087	43,412
Medical Expenses	390	816	833
Travel Expenses	12,105	14,286	9,525
Administrative Expenses	61,656	40,963	46,629
Professional Services	27,500	2,000	29,000
Education and Training	5,430	5,550	4,860
Furniture and Equipment	38,469	12,470	22,008
Management Fees	4,210,607	3,634,252	3,527,239
Custodial Fees	248,599	261,885	333,447
Consultant Fees	144,000	141,000	140,000
Rent Expenses	128,707	105,992	105,992
Service Contracts	58,218	39,050	41,872
Fiduciary Insurance	52,316	50,547	49,811
Sub Total	5,604,844	4,896,870	4,892,133
Total Disbursements	$64,049,504	$62,303,532	$58,402,784

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	$3,290	$7,410	$14,006
Short Term Investments	0	39	758
Fixed Income	5,050,691	4,961,735	5,339,011
Equities	6,722,266	4,055,774	3,252,931
Pooled or Mutual Funds	5,154,830	4,713,564	4,109,057
Commission Recapture	392,692	235,924	163,700
Total Investment Income	17,323,768	13,974,445	12,879,463
Plus:			
Realized Gains	19,761,578	15,549,033	31,039,819
Unrealized Gains	116,470,696	55,216,112	118,170,014
Interest Due and Accrued - Current Year	1,054,988	1,112,056	1,089,244
Sub Total	137,287,262	71,877,201	150,299,077
Less:			
Paid Accrued Interest on Fixed Income Securities	(311,307)	(512,170)	(313,387)
Realized Loss	(8,637,325)	(10,378,851)	(12,184,542)
Unrealized Loss	(28,208,347)	(73,644,187)	(49,598,291)
Interest Due and Accrued - Prior Year	(1,112,056)	(1,089,244)	(1,177,182)
Sub Total	(38,269,035)	(85,624,453)	(63,273,401)
Net Investment Income	116,341,994	227,194	99,905,139
Income Required:			
Annuity Savings Fund	395,440	609,818	652,790
Annuity Reserve Fund	1,610,004	1,611,054	1,502,309
Military Service Fund	6	12	18
Expense Fund	5,604,844	4,896,870	4,892,133
Total Income Required	7,610,294	7,117,754	7,047,248
Net Investment Income	116,341,994	227,194	99,905,139
Less: Total Income Required	7,610,294	7,117,754	7,047,248
Excess Income (Loss) To The Pension Reserve Fund	$108,731,700	($6,890,561)	$92,857,891

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$11,259,398	1.3%
Fixed Income Securities (at fair value)	83,607,586	9.6%
Equities	301,154,356	34.7%
Pooled Domestic Equity Funds	74,510,956	8.6%
Pooled International Equity Funds	138,641,082	16.0%
Pooled Domestic Fixed Income Funds	55,090,563	6.3%
Pooled International Fixed Income Fund	41,012,698	4.7%
Pooled Alternative Investment Funds	21,494,941	2.5%
Pooled Real Estate Funds	86,360,305	10.0%
PRIT Core Fund	54,522,590	6.3%
Grand Total	$867,654,475	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Cambridge Retirement System was 14.99%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Cambridge Retirement System averaged 2.46%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Cambridge Retirement System was 9.28%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Cambridge Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

<u>September 16, 2010</u>
19.01 (8)
The Cambridge Retirement Board is authorized to increase its maximum permitted allocation to alternative investments from 5% to 7.5%. Analysis by the Board's investment consultant indicated that this adjustment would enhance the ability of the Board to meet its 8.25% actuarial assumption in a diversified and prudent manner. It is noted that the Board's definition of alternative investments includes value-added real estate and timber.

<u>August 11, 2009</u>
16.08
The Cambridge Retirement Board is authorized to invest in the State Street Global Advisors Russell 1000 Growth Index Fund on a temporary basis. The Board has terminated its incumbent large cap growth manager for performance reasons and will commence a competitive search process for a permanent replacement manager. Pending the completion of that search, the Board's consultant has determined that the SSgA index fund is the most appropriate and cost-effective means to maintain the board's asset allocation during the search. The Board has existing, satisfactory relationships with SSgA index funds. This authorization will extend through December 15, 2009.

<u>August 4, 2009</u>
16.08
The Cambridge Retirement Board is authorized to invest in Hancock Timberland X, L.P. The Board and its investment consultant see this as a follow-on investment to the Board's existing investment in the Hancock Timber ForesTree V Fund. The Board has been a satisfied investor in that fund, which has essentially the same management team and investment strategy as Hancock Timberland X. About 90% of the Board's invested assets in ForesTree V have been returned to date. The manager has submitted the required updated regulatory documents.

<u>April 14, 2008</u>
16.08
In accordance with Investment Guideline 99-3, the Cambridge Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent Venture Partners IV. The management team and strategy are unchanged and Ascent Venture Partners has submitted an updated Exemption Application.

<u>January 2, 2008</u>
21.01 (2)
Pyramis Global Advisors' Large Cap Core 130/30 Fund follows a strategy permits the portfolio manager to execute short sales up to an amount equal to 30% of the account's net market value and to purchase additional securities with the proceeds of the short sales. Total exposure relative to the benchmark will be no more that 1.00. This authorizes the manager to make these short sales.

April 28, 2005
19.01 (6)
Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the Cambridge Retirement Board may invest funds of the Cambridge Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder.
The Limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

April 7, 2005
16.08
The Cambridge Retirement Board is authorized to modify the structure of its mid cap growth equity mandate with Loomis Sayles & Company from a commingled fund to a separately managed account. This change was necessitated by Loomis Sayles' decision to terminate the commingled fund. The portfolio management team and investment strategy remain the same.

July 27, 2004
16.08
In accordance with Investment Guideline 99-3, the Cambridge Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in the two predecessor partnerships, Ascent Venture Partners II and Ascent Venture Partners III, and seeks to maintain its asset allocation to venture capital by investing in Ascent Venture Partners IV.

March 12, 2001
16.08
Having voted to terminate the large-cap value equity portfolio managed by Freedom Capital Management Corporation, the Cambridge Retirement Board is authorized to invest in the State Street Global Advisors large cap value index fund as a temporary measure to maintain the system's asset allocation pending completion of a formal search process for a permanent replacement manager. The Board has an existing relationship with SSgA, a leader in institutional index funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Cambridge Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $774.36 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $774.36 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $100,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Cambridge Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Creditable Service
October 29, 1996
Any permanent employee of the Cambridge School Department who is not a certified teacher and therefore eligible to apply for membership in the Retirement System will be given credit for a full year of creditable service if they are employed full time for the job they perform if the job only occurs during the school year.

Permanent full-time employment in the School System would be the maximum number of hours that are assigned to the job function so long as the number equals 20 hours per week. The creditable service will accrue as full-time so long as the member continues in that category (position) to retirement.

Creditable service for all part-time, provisional, temporary, temporary provisional, per diem, seasonal or intermittent employment and/or service shall be computed to credit the member for that proportion of a normal year which the number of days actually worked during that year bears to the normal working year from the department under which the employee works.

Creditable service for all part-time salaried employees will be pro-rated on the basis of the proportion which the actual salary received bears to what the salary would be for the same position if it were full-time.

Membership
October 29, 1996
Permanent part-time employment will be any employee who is employed at least twenty (20) hours per week in a position or in more than one position so that when hours of employment are added together those hours equal at least twenty (20) hours per week.

CETA employees and Grant funded employees shall become members of the retirement system. If these employees later become employed by the City, they will be allowed to make payment toward creditable service for the time they worked under such programs.

All non-compensated appointed officials, whether members of board or commissions and the like who do not receive regular compensation as set forth under Chapter 32 are not eligible for membership in the Retirement System.

October 29, 1996
All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week may join the Cambridge Retirement System. They shall only be credited with one (1) year of creditable service for every three (3) years of service rendered in such capacity, so long as the member does not receive in excess of one (1) year of combined service for duel functions in any calendar year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	James Monagle		
Appointed Member:	Michael Gardner	Term Expires:	3/1/2016
Elected Member:	Francis Murphy	Term Expires:	9/30/2013
Elected Member:	Bradford Tenney, Chairman	Term Expires:	11/30/2014
Appointed Member:	Nadia Chamblin-Foster	Term Expires:	1/1/2015

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Coverage under a master MACRS sponsored policy with
Ex-officio Member:	)	Travelers Casualty and Surety Company of America.
Elected Members:	)	$10,000,000 Fiduciary policy, Deductible $50,000
Appointed Members:	)	Separate fidelity coverage pertaining to ERISA/Crime
Staff Employees:	)	to a limit of $1,000,000, Deductible $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2012.

The actuarial liability for active members was	$564,895,181
The actuarial liability for inactive members was	21,458,849
The actuarial liability for retired members was	483,716,384
The total actuarial liability was	$1,070,070,414
System assets as of that date were	832,296,715
The unfunded actuarial liability was	$237,773,699
The ratio of system's assets to total actuarial liability was	77.8%
As of that date the total covered employee payroll was	$217,086,299

The normal cost for employees on that date was	9.4% of payroll
The normal cost for the employer was (including expenses)	4.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	4.00% for two years, 4.75% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	$832,296,715	$1,070,070,414	$237,773,699	77.8%	$217,086,299	109.5%
1/1/2010	$796,015,770	$949,907,739	$153,891,969	83.8%	$232,842,117	66.1%
1/1/2008	$766,030,562	$833,034,229	$67,003,667	92.0%	$231,770,736	28.9%
1/1/2006	$632,059,327	$740,320,358	$108,261,031	85.4%	$201,087,686	53.8%

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	92	55	56	54	61	53	93	125	59	70
Ordinary Disability	1	2	0	1	2	3	5	2	3	1
Accidental Disability	15	9	5	10	6	8	7	3	5	7
Total Retirements	108	66	61	65	69	64	105	130	67	78
Total Retirees, Beneficiaries and Survivors	1,735	1,736	1,730	1,734	1,754	1,762	1,786	1,854	1,873	1,879
Total Active Members	6,225	6,152	3,714	3,842	3,806	3,822	3,889	3,806	3,618	3,604
Pension Payments										
Superannuation	$18,411,178	$19,448,238	$20,347,855	$21,237,005	$22,389,449	$23,266,258	$24,868,915	$27,543,267	$29,796,954	$30,910,284
Survivor/Beneficiary Payments	1,763,638	1,926,321	2,094,339	2,136,696	2,276,614	2,371,186	2,537,744	2,600,337	2,734,463	2,809,459
Ordinary Disability	540,571	521,570	517,168	508,069	564,391	585,887	669,484	652,164	686,073	684,411
Accidental Disability	5,845,127	6,511,419	6,642,373	7,610,691	6,928,068	7,022,382	7,292,762	7,725,226	7,858,900	7,896,108
Other	2,926,608	3,263,647	3,361,907	3,393,837	3,497,693	3,669,374	3,760,502	3,840,527	3,906,031	4,089,494
Total Payments for Year	$29,487,122	$31,671,195	$32,963,642	$34,886,298	$35,656,215	$36,915,087	$39,129,405	$42,361,521	$44,982,421	$46,389,755

Note: Total Active member Values have been restated for years 2005 through 2009 to correct overstatement in those years in the previous audit.

NOTE 7 – LEASED PREMISES

The Cambridge Retirement Board leases approximately 4,596 square feet of space for its offices located at Suite 101, 100 CambridgePark Drive, Cambridge, MA 02140. They signed an initial 10-year lease, including an annual increase of $0.75 per square foot, which expires on May 31, 2022. The landlord is KT CambridgePark, LLC, Transatlantic Investment Management.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2012:

For the year ending:	Annual Rent	Less Note 1	Net Rent
2013	$134,145.75	(21,511.18)	$112,634.57
2014	$137,592.75	(22,063.90)	$115,528.85
2015	$141,039.75	(22,616.69)	$118,423.06
2016	$144,486.75	(23,169.46)	$121,317.29
2017	$147,933.75	(23,722.18)	$124,211.57
2018	$151,380.75	(24,274.90)	$127,105.85
2019	$154,827.75	(24,827.69)	$130,000.06
2020	$158,274.75	(25,380.46)	$132,894.29
2021	$161,721.75	(25,933.18)	$135,788.57
2022 (Through May 31, 2022)	$67,982.50	(10,901.45)	$57,081.05
Total future minimum lease payments required	$1,399,386.25	(224,401.09)	1,239,703.80

Note 1: The Cambridge Retirement Board sublets 737 square feet of office space to the Cambridge Public Employees Dental & Vision Fund. The initial annual rate of $21,188.75 is used to offset the Board's rental expense.

Note 2: In lieu of a Security Deposit the Landlord has accepted a letter of credit. The letter is issued by Century Bank and Trust Company in the amount of $24,630.00. The Landlord, KT CambridgePark, LLC, Transatlantic Investment Management, is the beneficiary. The letter expires March 29, 2017.

Note 3: The costs related to the move to this office space including furniture and equipment and direct moving costs were expensed in 2012. Total amounted to $36,883.

PERAC
Five Middlesex Avenue | Third Floor
Somerville, MA | 02145
Ph: 617.666.4446 | Fax: 617.628.4002
TTY: 617.591.8917 | Web: www.mass.gov/perac